

Message Text

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13

ACTION TRSE-00

INFO OCT-01 EA-11 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 SS-20 STR-08 OMB-01 CEA-02 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

L-03 H-03 PA-04 PRS-01 USIA-15 IO-14 NEA-14 DRC-01

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC 3592

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USADB

TREASURY FOR FINKEY

E.O. 11652: DECLAS 12/31/74

TAGS: EAID, EFIN

SUBJECT: POSSIBLE CONSEQUENCES TO U.S.POSITION IN ADB
FROM SPECIAL ORDINARY CAPITAL INCREASE OF OTHER MEMBERS

SUMMARY: GERMANY AND INDONESIA INTEND TO REQUEST
INCREASE IN ORDINARY CAPITAL SUBSCRIPTION. MALAYSIAN
GIVING MATTER SERIOUS CONSIDERATION AS WELL. MAGNITUDE
OF PROPOSED GERMAN AND INDONESIAN SPECIAL CAPITAL IN-
CREASES SUCH THAT RESULTS FROM INCREASES COULD (A)
SERIOUSLY AFFECT U.S. ABILITY RETAIN INDEPENDENT
DIRECTOR'S CHAIR IN ADB BOARD AND (B) PRECLUDE POSSI-
BILITY U.S. REESTABLISHING PARITY WITH JAPAN, UNLESS
OVERDUE U.S.ORDINARY CAPITAL INCREASE EFFECTED PROMPTLY.

1. GERMANY, INDONESIA, AND MALAYSIA RECENTLY CONSULTED
WITH ADB PRESIDENT REGARDING POSSIBLE SPECIAL ORDINARY
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CAPITAL INCREASES. GERMANY AND INDONESIAN DEFINITELY

DECIDED TO REQUEST SPECIAL INCREASE. MALAYSIA UNDECIDED AT THIS POINT. TIMING UNCLEAR BUT MAY WELL OCCUR THIS YEAR. EXACT AMOUNTS ALSO UNCERTAIN BUT UNDERSTAND GERMANY THINKING IN TERMS OF ROUGHLY DOUBLING SUBSCRIPTION, INDONESIA OF TREBLING.

2. RELEVANT RULES GOVERNING SHAR PARTICIPATION BY MEMBERS AND DISTRIBUTION OF DIRECTORSHIPS ARE AS FOLLOWS:

(A) ARTICLE 5 OF BANK CHARTER REQUIRE REGIONAL MEMBERS MUST OWN MINIMUM 60 PERCENT OF BANK'S TOTAL OUTSTANDING SHARES. BANK'S REGIONAL MEMBERS CURRENTLY OWN 72 PERCENT OF BANK'S SHARES. ARTICLE 5 ALSO STIPULATES THAT SPECIAL ATTENTION MUST BE GIVEN TO REQUEST OF ANY MEMBER OF BANK HAVING LESS THAN 6 PERCENT OF SUBSCRIBED STOCK TO INCREASE ITS PROPORTIONATE SHARE. GERMANY, INDONESIA AND MALAYSIA ALL INCLUDED THIS CATEGORY.

(B) ARTICLE 33 OF BANK CHARTER PROVIDES THAT TOTAL VOTING POWER OF EACH MEMBER CONSISTS SUM OF ITS BASIC VOTES PLUS PROPORTIONAL VOTES. NUMBER OF PROPORTIONAL VOTES EACH MEMBER EQUAL TO NUMBER SHARES CAPITAL STOCK OF BANK PURCHASES BY THAT MEMBER. SAME ARTICLE STIPULATES THAT 20 PERCENT OF AGGREGATE SUM OF BASIC VOTES AND PROPORTIONAL VOTES OF ALL MEMBERS MUST BE EQUALLY DIVIDED BY ALL MEMBERS AS BASIC VOTE (AT PRESENT 41 MEMBERS).

(C) AT FOURTH ANNUAL MEETING OF BOARD OF GOVERNORS SIZE OF BOARD WAS ENLARGED TO 12 MEMBERS FROM 10, CONSISTING OF 8 DIRECTORS REPRESENTING REGIONAL MEMBERS AND 4 REPRESENTING NON-REGIONAL MEMBERS (RESOLUTION #37).

3. UNDER THE FOREGOING RULES, THEORETICAL MINIMUM VOTES REQUIRED FOR NON-REGIONAL MEMBER TO HOLD DIRECTORSHIP IS 25 PERCENT OF TOTAL NON-REGIONAL SHARES AND 7 PERCENT OF TOTAL VOTING SHARES. FOR A REGIONAL MEMBER MINIMUM 12.5 PERCENT OF TOTAL VOTING SHARES. U.S. WITH 7.6 PERCENT OF TOTAL VOTES AND 27.1 PERCENT OF TOTAL NON-REGIONAL VOTES BARELY ABOVE THEORETICAL MINIMUM REQUIRED TO RETAIN DIRECTOR'S CHAIR.

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4. IN EVENT GERMANY DOUBLES SHARE TO 19,754 AND INDONESIA QUADRUPLES SHARE TO 30,496, FOLLOWING WOULD RESULT:

- (A) TOTAL VOTES INCREASE TO 315,097
- (B) TOTAL REGIONAL VOTES INCREASE TO 226,192
- (C) TOTAL NON-REGIONAL VOTES INCREASE TO 88,905
- (D) INDONESIA WOULD HAVE 9.6 PERCENT OF TOTAL VOTING SHARES AND 12.3 PERCENT OF TOTAL REGIONAL VOTING SHARES.
- (E) GERMANY WOULD HAVE 6.2 PERCENT OF TOTAL VOTING

SHARES AND 22.3 PERCENT OF TOTAL NON-REGIONAL SHARES
(F) U.S. WOULD HAVE 6.7 PERCENT OF TOTAL VOTING
SHARES AND 24.2 PERCENT OF TOTAL REGIONAL SHARES.
MINIMUM NUMBER OF SHARES REQUIRED TO RETAIN A DIRECTOR'S
POSITION WILL REMAIN UNCHANGED, NAMELY, 9 PERCENT OF
TOTAL VOTING SHARES AND 12 1/2 PERCENT OF TOTAL REGIONAL
SHARES FOR REGIONAL MEMBERS, AND 7 PERCENT OF
TOTAL VOTING SHARES AND 25 PERCENT OF TOTAL NON-REGIONAL
SHARES FOR NON-REGIONAL MEMBERS.

5. OBVIOUS CONCLUSIONS:

(A) INDONESIA WOULD BE ENTITLED TO A DIRECTOR'S SHARE
INDEPENDENTLY. SHOULD INDONESIA PUSH FOR INDEPENDENT
DIRECTORSHIP, THIS WOULD NECESSITATE REGROUPING, WITH
GROUP MOST VULNERABLE TO DISBANDING THAT OF KHMER REPUBLIC,
SRI LANKA, LAOS AND AFGHANISTAN.

(B) THEORETICALLY, GERMANY AND U.S. WOULD NOT BE
ENTITLED TO A SOLE DIRECTORSHIP AND WILL HAVE TO SHARE
POSITION WITH MINORITY NON-REGIONAL MEMBER. UP TO
PRESENT AUSTRALIA AND INDIA, WHILE REPRESENTING OTHER
MINORITY REGIONAL MEMBERS, HAVE NOT ROTATED EITHER DIRECTOR'S
OR ALTERNATE'S POSITION WITH MINORITY MEMBERS.
DEVELOPED NON-REGIONAL MEMBERS, HOWEVER, HAVE FOLLOWED
PRACTICE OF ROTATING BOTH POSITIONS ON SOME KIND OF PRE-
ARRANGED PATTERN.

(C) SINCE THERE ARE APPROXIMATELY 53,000 SHARES UNSUBSCRIBED
CURRENTLY, INDONESIA/GERMAN SPECIAL SUBSCRIPTION
INCREASE, COLLECTIVELY AMOUNTING TO 30,000 IF BASIC
ASSUMPTIONS CORRECT, WOULD LEAVE ONLY 23,000 SHARES UN-
SUBSCRIBED CREATING OBVIOUS DIFFICULTIES FOR U.S. IN LIGHT
OF CAPITAL SUBSCRIPTION INCREASE REQUEST OF 30,000 CURRENTLY
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BEFORE CONGRESS. HENCE, SPECIAL CAPITAL INCREASE FOR
GERMANY AND INDONESIAN MAY WELL REMOVE ALL PROSPECTS OF
U.S. RE-ESTABLISHING PARITY WITH JAPAN IN ADB.
SULLIVAN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: VOTING, DEVELOPMENT BANKS, COMMITTEE MEETINGS, STOCKS (SECURITIES), CAPITAL (FINANCE), BANK LAW
Control Number: n/a
Copy: SINGLE
Draft Date: 20 MAY 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GarlanWA
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974MANILA05866
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740124-0529
From: MANILA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740534/aaaabduu.tel
Line Count: 158
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION TRSE
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GarlanWA
Review Comment: n/a
Review Content Flags:
Review Date: 07 AUG 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <07-Aug-2002 by worrelsw>; APPROVED <26 FEB 2003 by GarlanWA>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: POSSIBLE CONSEQUENCES TO U.S.POSITION IN ADB FROM SPECIAL ORDINARY CAPITAL INCREASE OF OTHER MEMBERS
TAGS: EAID, EFIN, ADB-1
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005